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Philip Morris makes payment RJR still owes full amount

By Stephanie Stoughton
Associated Press

RICHMOND, Va. - Philip Morris USA apparently has decided against playing hardball with the states over a hefty settlement payment due this month, but Reynolds American Inc.'s RJR is hanging tough.

On Friday, Philip Morris, the nation's largest cigarette maker, made its \$3.4 billion payment, even though it believes that sum eventually should be reduced to reflect market losses it suffered due to its participation in the 1998 Master Settlement Agreement.

RJR, based in Winston-Salem, N.C., also made its payment Friday but decided not to pay the full amount, company spokesman David Howard said. Howard declined to provide details about the company's payment.

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Philip Morris, RJR and Loews Corp.'s Lorillard have sought to cut \$1.2 billion from the \$6.5 billion due April 17. The companies say a provision in the settlement allows them to reduce payments to the 46 states if they collectively lose market share to so-called "nonparticipating manufacturers" - or players operating outside the pact.

But the big tobacco companies also must prove that the states did not adequately enforce statutes requiring the outsiders to place funds in escrow accounts in case of future state litigation.

Philip Morris, the company behind the No. 1 Marlboro brand, still could possibly get a reduction.

But it has opted to meet the states' demands while it negotiates.

"We will continue to pursue our dialogue with the state attorneys general in order to come to a mutually agreeable resolution," said Michael Neese, a spokesman for Philip Morris, owned by New York-based Altria Group Inc.

RJR's hard-line approach may anger the states, which have been pressuring companies to make their full payments by the deadline. Several states are threatening legal action if the big manufacturers attempt to make reductions.

A spokesman for Lorillard, based in Greensboro, N.C., said Friday he had no immediate comment on the company's payment plans.

"We believe it is very responsible of Philip Morris to make this full payment," said Bob Brammer, a spokesman for Iowa Attorney General Tom Miller.

Miller is also tobacco-committee co-chairman for the National Association of Attorneys General.

State attorneys general say the settlement, which reimbursed states for smoking-related health care costs, has helped reduce smoking consumption. Today, many states now rely heavily on the tobacco companies' payments.

States and localities have issued billions in dollars in bonds backed by future settlement payments.

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